

“(1) IN GENERAL.—Except in the case”.

(2) by adding at the end of paragraph (1) as redesignated in paragraph (1) the following new sentence: “For the purposes of this subsection, the term ‘dependents’ shall include any individual who is an eligible beneficiary as defined in the employer’s accident or health insurance arrangement.”, and

(3) by adding at the end the following new paragraph:

“(2) APPLICABLE PERCENTAGE OF EXCLUSION FOR CERTAIN AMOUNTS.—

“(A) IN GENERAL.—In the case of taxable years beginning after December 31, 2004, and before January 1, 2011, the exclusion from income applicable by reason of the third sentence of paragraph (1) shall be equal to the applicable percentage of the amount which would (but for this paragraph) be the amount of such exclusion.

“(B) APPLICABLE PERCENTAGE.—For purposes of subparagraph (A), the applicable percentage shall be determined in accordance with the following table:

“For taxable years beginning in calendar year—	The applicable percentage is—
2005, 2006, or 2007 .....	25.
2008, 2009, 2010 .....	50.”.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2004.

### SEC. 3. EXTENSION OF EXCLUSION FOR CONTRIBUTIONS BY EMPLOYER TO ACCIDENT AND HEALTH PLANS.

(a) IN GENERAL.—Section 106 of the Internal Revenue Code of 1986 (relating to contributions by employer to accident and health plans) is amended by adding at the end the following new subsection:

“(d) COVERAGE PROVIDED FOR ELIGIBLE BENEFICIARIES OF EMPLOYEES.—

“(1) IN GENERAL.—Subsection (a) shall not fail to apply by reason of the coverage of an eligible beneficiary as defined in the employer’s accident or health plan.

“(2) APPLICABLE PERCENTAGE OF EXCLUSION FOR CERTAIN COVERAGE.—

“(A) IN GENERAL.—In the case of taxable years beginning after December 31, 2004, and before January 1, 2011, the exclusion from income applicable by reason of paragraph (1) shall be equal to the applicable percentage of the amount which would (but for this paragraph) be the amount of such exclusion.

“(B) APPLICABLE PERCENTAGE.—For purposes of subparagraph (A), the applicable percentage shall be determined in accordance with the following table:

“For taxable years beginning in calendar year—	The applicable percentage is—
2005, 2006, or 2007 .....	25.
2008, 2009, 2010 .....	50.”.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2004.

### SEC. 4. EXTENSION OF DEDUCTION FOR HEALTH INSURANCE COSTS OF SELF-EMPLOYED INDIVIDUALS.

(a) IN GENERAL.—Paragraph (1) of section 162(l) of the Internal Revenue Code of 1986 (relating to special rules for health insurance costs of self-employed individuals) is amended to read as follows:

“(1) ALLOWANCE OF DEDUCTION.—

“(A) IN GENERAL.—In the case of an individual who is an employee within the meaning of section 401(c)(1), there shall be allowed as a deduction under this section an amount equal to the amount paid during the taxable year for insurance which constitutes medical care for the taxpayer, his spouse, and dependents. For the purposes of this subparagraph, the term ‘dependents’ shall include any individual who is an eligible beneficiary as defined in the insurance arrangement which constitutes medical care.

“(B) APPLICABLE PERCENTAGE OF DEDUCTION FOR CERTAIN AMOUNTS.—

“(i) IN GENERAL.—In the case of taxable years beginning after December 31, 2004, and before January 1, 2011, the deduction applicable by reason of the second sentence of subparagraph (A) shall be equal to the applicable percentage of the amount which would (but for this subparagraph) be the amount of such deduction.

“(ii) APPLICABLE PERCENTAGE.—For purposes of clause (i), the applicable percentage shall be determined in accordance with the following table:

“For taxable years beginning in calendar year—	The applicable percentage is—
2005, 2006, or 2007 .....	25.
2008, 2009, 2010 .....	50.”.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after December 31, 2004.

### SEC. 5. EXTENSION OF SICK AND ACCIDENT BENEFITS PROVIDED TO MEMBERS OF A VOLUNTARY EMPLOYEES’ BENEFICIARY ASSOCIATION AND THEIR DEPENDENTS.

(a) IN GENERAL.—Section 501(c)(9) of the Internal Revenue Code of 1986 (relating to list of exempt organizations) is amended by adding at the end the following new sentence:

“For purposes of providing for the payment of sick and accident benefits to members of such an association and their dependents, the term ‘dependents’ shall include any individual who is an eligible beneficiary as determined under the terms of a medical benefit, health insurance, or other program under which members and their dependents are entitled to sick and accident benefits.”.

(b) APPLICABLE PERCENTAGE OF PAYMENT OF CERTAIN SICK AND ACCIDENT BENEFITS.—Section 501 of the Internal Revenue Code of 1986 (relating to exemption from tax on corporations, certain trusts, etc.) is amended by redesignating subsection (p) as subsection (q) and by inserting after subsection (o) the following new subsection:

“(p) APPLICABLE PERCENTAGE OF PAYMENT OF CERTAIN SICK AND ACCIDENT BENEFITS.—

“(1) IN GENERAL.—In the case of taxable years beginning after December 31, 2004, and before January 1, 2011, the exemption from tax applicable by reason of the second sentence of subsection (c)(9) shall be equal to the applicable percentage of the amount which would (but for this subsection) be the amount of such exemption.

“(2) APPLICABLE PERCENTAGE.—For purposes of paragraph (1), the applicable percentage shall be determined in accordance with the following table:

“For taxable years beginning in calendar year—	The applicable percentage is—
2005, 2006, or 2007 .....	25.
2008, 2009, 2010 .....	50.”.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2004.

### SEC. 6. AMENDMENTS TO VARIOUS DEFINITIONS.

(a) FICA.—

(1) IN GENERAL.—Section 3121 of the Internal Revenue Code of 1986 (relating to definitions) is amended by adding at the end the following new subsection:

“(z) EXCLUSION OF CERTAIN AMOUNTS FROM WAGES.—

“(1) IN GENERAL.—For purposes of applying subsection (a) with respect to expenses described in paragraph (2)(B) of such subsection, the term ‘dependents’ shall include any individual who is an eligible beneficiary as defined in the plan or system established by the employer.

“(2) APPLICABLE PERCENTAGE OF EXCLUSION FROM WAGES.—

“(A) IN GENERAL.—In the case of taxable years beginning after December 31, 2004, and before January 1, 2011, the exclusion from wages applicable by reason of paragraph (1) shall be equal to the applicable percentage of the amount which would (but for this paragraph) be the amount of such exclusion.

“(B) APPLICABLE PERCENTAGE.—For purposes of subparagraph (A), the applicable percentage shall be determined in accordance with the following table:

“For taxable years beginning in calendar year—	The applicable percentage is—
2005, 2006, or 2007 .....	25.
2008, 2009, 2010 .....	50.”.

(2) CONFORMING AMENDMENT.—Section 209 of the Social Security Act (42 U.S.C. 409) is amended by adding at the end the following new subsection:

“(1)(I) For purposes of applying subsection (a) with respect to medical or hospitalization expenses described in paragraph (2) thereof, the term ‘dependents’ shall include any individual who is an eligible beneficiary as defined in the plan or system established by the employer.

“(2)(A) In the case of taxable years beginning after December 31, 2004, and before January 1, 2011, the exclusion from wages applicable by reason of paragraph (1) shall be equal to the applicable percentage of the amount which would (but for this paragraph) be the amount of such exclusion.

“(B) For purposes of subparagraph (A), the applicable percentage shall be determined in accordance with the following table:

“For taxable years beginning in calendar year—	The applicable percentage is—
2005, 2006, or 2007 .....	25.
2008, 2009, 2010 .....	50.”.

(b) RAILROAD RETIREMENT.—

(1) IN GENERAL.—Section 3231(e) of the Internal Revenue Code of 1986 (defining compensation) is amended by adding at the end the following new paragraph:

“(11) TREATMENT OF CERTAIN DEPENDENTS.—

“(A) IN GENERAL.—For purposes of applying this subsection with respect to medical or hospitalization expenses described in paragraph (1)(i), the term ‘dependents’ shall include any individual who is an eligible beneficiary as defined in the plan or system established by the employer.

“(B) APPLICABLE PERCENTAGE OF EXCLUSION FROM COMPENSATION.—

“(i) IN GENERAL.—In the case of taxable years beginning after December 31, 2004, and before January 1, 2011, the exclusion from compensation applicable by reason of subparagraph (A) shall be equal to the applicable percentage of the amount which would (but for this subparagraph) be the amount of such exclusion.

“(ii) APPLICABLE PERCENTAGE.—For purposes of clause (i), the applicable percentage shall be determined in accordance with the following table:

“For taxable years beginning in calendar year—	The applicable percentage is—
2005, 2006, or 2007 .....	25.
2008, 2009, 2010 .....	50.”.

(2) CONFORMING AMENDMENT.—Section 1(h) of the Railroad Retirement Act of 1974 (45 U.S.C. 231(h)) is amended by adding at the end the following new paragraph:

“(9)(A) For purposes of applying this subsection, with respect to medical or hospitalization expenses described in paragraph (6)(v), the term ‘dependents’ shall include any individual who is an eligible beneficiary as defined in the plan or system established by the employer.

“(B)(i) In the case of taxable years beginning after December 31, 2004, and before January 1, 2011, the exclusion from compensation applicable by reason of subparagraph